

DECEMBER, 1943



BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Review of Seventh District Business

Few Sharp Gains Expected Over Current Record Levels

Sharp gains over present or recent record levels have now become extremely difficult to achieve in almost all forms of Seventh District business activity. Aggregate industrial production continues to advance fractionally, but the shifting requirements of the armed forces simultaneously prompt numerous contract cut-backs and cancellations and special expansion programs. Agricultural crop production during the year is now revealed to have been slightly below the records set in 1942, but nevertheless exceeded the average of the five moderately favorable crop seasons during 1937-41. Although 1943 retail sales for the most part have persisted above year ago levels, some tapering off has been evident, most recently because of the unusually prolonged Christmas buying season.

Despite continual adjustments to changing war needs, Seventh District industries are maintaining their dominant position in the national war effort. Through September, 1943 the armed services and affiliated units had placed in the district states more than two-fifths of all contracts for ordnance materials which include guns, ammunition, and combat vehicles. Michigan, which leads the nation in combat vehicle production, also ranks first among the states in total and ordnance contracts, and third in aircraft contracts.

WAR CONTRACT ADJUSTMENTS INCREASE

Contract cut-backs and cancellations are steadily increasing in number and importance in the Seventh District as elsewhere. To illustrate, the Iowa Ordnance plant at Burlington has been cut down; the Studebaker plant in Chicago has reduced its work-week to 48 hours; construction has been halted on the Phelps-Dodge aluminum plant at Hammond, Indiana; Buick has released about 2,500 employees at Melrose Park, Illinois, because of an aircraft engine change; the cut-back at the Des Moines Ordnance plant promises to release more than 3,000 workers; General Motors, Chrysler, and Ford report cut-backs; surplus production has caused a lay-off at the Pratt and Whitney aircraft division plant in Flint, Michigan; and the Milwaukee Ordnance plant which has been employing 5,000 persons to produce .50 caliber cartridges will be closed by about January 1, 1944. In many other Seventh District plants, backlogs of war orders have enabled production and employment to continue largely uninterrupted although contract adjustments have been frequent.

These cut-backs and cancellations are, of course, not a new development, but their current volume is

larger than at any previous time during the war. A much greater volume obviously will occur when the current intensity of the war program subsides materially, affecting all or the great majority of plants doing war work. Effects of current cut-backs and cancellations are being watched carefully now for any lessons to be learned in adjusting to the greater number of contract changes which lie ahead.

So long as production of war materials remains high, necessary adjustments to new situations arising from altered war contracts generally can be made without serious dislocations in manpower and equipment, particularly if the affected plants are located in large diversified industrial centers which can absorb quickly the released workers. Where the shut-down war plant is located in an isolated community, however, as in the case of several ordnance plants, severe unemployment probably will result. Since many of the workers in the affected plants previously have moved into the plant areas from other sections of the district and nation, further movement will not be an entirely new experience however difficult. The mixed situation of small labor surpluses appearing in some areas while others have increasing labor stringencies is likely to persist. Released workers may gradually resist efforts to move to other war centers because of the rather widespread speculation about future stepping-down of war production as hostilities diminish. The status of certain district cities with respect to WMC labor area groupings will undoubtedly change further as a result of contract revisions.

CIVILIAN SUPPLIES REMAIN UNCERTAIN

Expectations about the resumption of production of civilian goods continue to rise and fall with WPB announcements relaxing or tightening individual items. The easing of certain metal supplies, notably aluminum and steel, have led to numerous optimistic generalizations about a quick improvement in many civilian goods. While certain basic metals may become available, these ordinarily constitute only a partial answer to the problem of resuming production of civilian goods. Moreover, relatively few of the steel products which are now becoming available in larger supplies go directly into civilian goods without further processing. The WPB reports that the need for flat rolled steel products, essential to consumer goods, continues to exceed supply especially in the hard good lines, e.g., tools, farm implements, kitchen ware, and other utility equipment. Shortages of manpower and fabricating capacity will impede any substantial resumption of civilian products in the immediate future, but small metal items promise to become more plentiful. The full results of easing or lifting certain production

(Continued on page 7)

THIS MONTH'S COVER

Monument Circle in the heart of Indianapolis

Indianapolis Nears Peak War Activity

Diversified Manufacturing Center Parallels National Trends

The war-accelerated rise of business activity in Indianapolis, fourth largest city in the Seventh Federal Reserve District, appears now to be reaching its peak. Gains have roughly paralleled those of the nation since mid-1940 when the initial defense preparations began. An important center of diversified peacetime manufactures, the city's industries early began to shift into the production of war materiel, and currently at least 70 per cent of all manufacturing output is for war purposes.

Three and one-half years of defense preparation and war have brought to the Indianapolis area a population increase greater than during the entire previous decade, an all-time record level of employment and pay rolls, and an unprecedented volume of trade, but not without critical labor and housing problems.

Higher wages, extended workdays and workweeks, overtime compensation, up-grading of workers, plus an expansion of more than one hundred per cent in numbers employed have brought about a total manufacturing pay roll rapidly approaching four times that of 1939. Average weekly earnings have gained almost 75 per cent during approximately the same period. These increases are, in turn, reflected in unparalleled growth in most phases of commercial activity.

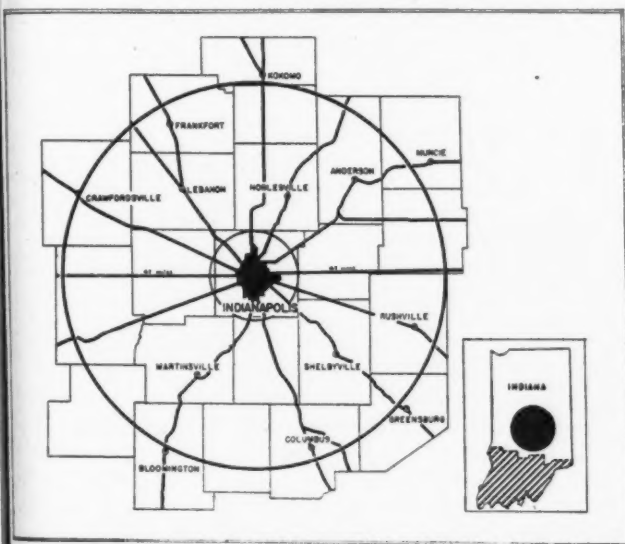
In spite of heavy in-migration, the demands of war industry and the armed services have created a tight labor situation. In October 1943 the War Manpower Commission (WMC) considered the labor supply condition in Indianapolis sufficiently critical to warrant classifying the area as one in which a "current acute labor shortage exists."

Indianapolis, the state capital, is located in the heart of Indiana. The city itself forms the hub of the Indianapolis Industrial Area which comprises Marion county, a land area of 402 square miles, with 497,211 inhabitants in March 1943. In 1940, 84 per cent of the county's total population was concentrated in the city, but the suburbs had grown rapidly during the previous decade, and thousands of persons who have in-migrated recently have settled in the outlying areas.

This area is roughly coextensive with the primary retail trading area which covers a radius of some 10 miles from Monument Circle in the center of Indianapolis. In peacetime, the city serves as the primary and secondary trading center for almost a million persons living within a radius of approximately 45 miles, and notwithstanding wartime travel restrictions, still retains its prewar attractiveness to most of the residents of central Indiana. Decentralization of Indianapolis industry may result in the eventual enlargement of the industrial area to include essentially the same region as the retail trading area. Cities such as Muncie, Anderson, and Bloomington may be drawn into the orbit through the manufacture of more and more materials for Indianapolis industries, thus ultimately allying themselves with the capital city through production of inter-related products.

The city's population presents a diversified picture. Persons of Irish and German extraction predominate among the peacetime foreign-born population, although large numbers have immigrated from England, Russia, Italy, and Canada. Migration from the Southern States has resulted in a relatively high percentage of negroes among the population. More than 13 per cent of the 356,972 persons living in Indianapolis in 1940 were colored, as compared with the United States average of 9.8 per cent. Despite the relatively large number of negro workers in Indianapolis, racial difficulties have been at a minimum since the beginning of the war, and industry has operated smoothly, unhampered by major labor troubles.

INDIANAPOLIS TRADING AREA



TYPE AND KIND OF INDUSTRY

Indianapolis occupies the unique position of being the largest city in the United States not on navigable water, a factor which has been important in shaping its peacetime economy. Prior to World War I, the city attracted a number of small independent automobile factories. Only a few of these survived competition of large automobile corporations established in other localities during the 1920's. The small manufacturers were handicapped by their distance from coal and steel and the expense of transporting these basic materials by rail. As a result,

Indianapolis industry shifted its efforts to the production of specialized automobile parts and equipment, the manufacture of which was well adapted to their relatively small diversified plants. Nevertheless, in Indianapolis, as in many major cities in the Seventh Federal Reserve District, the automotive industry occupies an important place in the peacetime economy. Among Indianapolis manufacturers in 1939 the value of the products of this industry ranked second in importance to meat packing. Automobile sales were also second highest in wholesale trade, and third highest among all retail trade.

Besides automotive bodies, parts and accessories, and meat packing, other leading peacetime manufactures were: mechanical power-transmission equipment, bread and other bakery products, newspaper publishing and printing, general commercial job printing, and paperboard containers and boxes. These seven industries employed approximately one-third of all wage earners engaged in prewar manufacturing in Indianapolis.

In 1940, Indianapolis plants, for the most part, were operating at somewhat lower capacity than many plants in other sections of the country. The unused facilities were thus immediately available for conversion to war production. Through October 1943, Indianapolis firms were awarded government war supply and facilities contracts amounting to 1.9 billion dollars, or more than four times the value of the area's 1929 manufacturing production, and about six times that of 1939. Contracts for aircraft motors and parts constitute about three-fourths of the area's total. While nearly 5 million dollars have been allocated for non-industrial war facilities in the Indianapolis area, the bulk of war facilities expenditures totaling 159 million dollars has been for industrial plants. On November 1, 1943 Indianapolis ranked 17th among the nation's 109 industrial areas in volume of war contracts received, a position which has steadily improved during the past three years. Defense and war demands have altered, to some extent, the prewar picture of small diversified plants in Indianapolis, through the introduction of several large factories, such as the Allison Division of General Motors, the Lukas-Harold Corporation, bomb-sight manufacturers, and the propeller division of the Curtiss-Wright Corporation.

AGRICULTURE IMPORTANT IN AREA

The importance of agriculture adjacent to Indianapolis has been responsible for its growth into one of the prominent grain and livestock markets in the Middle West. Within a radius of 70 miles, a substantial bulk of soy beans, wheat, and oats of Indiana is produced. While these are the major crops of the area, a considerable volume of other grain crops, vegetables, and fruits is also produced in the region.

Numerically, hogs are the most important livestock received at the Indianapolis market from the

surrounding territory. In 1942 over five times more hogs were received than any other livestock. This volume enables Indianapolis to retain its position, held for the past several years, as fourth largest hog livestock market in the country.

Food canning in addition to meat packing ranks high among the leading manufactures. While the agricultural processing industries in Indianapolis were called upon to contribute to the war effort early, for the most part they have undergone little or no conversion to meet war production requirements. In several cases, however, expansion of existing facilities has been necessary.

RETAIL TRADE CONTINUES TO EXPAND

Prewar retail sales in Indianapolis, as in the nation, were concentrated mainly in general merchandise (including department, dry goods, and variety stores), food, and automobiles and accessories. More than half of the total sales in 1939 were in these three groups. Sales in the general merchandise and food groups have gained consistently, showing increases by July 1943 of probably more than 85 per cent and 130 per cent respectively over 1939. As would be expected, however, because of wartime restrictions the automotive group's sales have declined roughly 50 per cent during the same period. On the whole, the trend in retail sales has paralleled that in the nation.

The growth of the working population in Indianapolis and the surrounding territory, together with all-time high pay rolls and purchasing power have brought about an unprecedented gain in department store sales in the past two years. Indications are that 1943 sales will exceed those of 1942 by a large percentage if department store sales continue through December at their high dollar volume. In each of the first ten months of 1943 increases have ranged from 61 per cent to 146 per cent over the corresponding month in 1939. Dollar sales continued high during the usually "slow" months of July and August. The gain in the physical volume of goods, however, cannot be judged solely by the dollar increases because of concurrent price advances.

WHOLESALE TRADE DECLINING

From mid-1940 wholesale sales in Indianapolis followed an irregular course upward, reaching a peak in January and February 1942. Exceptionally high sales in these months reflected accelerated buying by retailers to replenish depleted stocks resulting from unusual post-Pearl Harbor demands. During the latter half of 1942 and through mid-1943 wholesale trade declined rather consistently, with September 1942 the only month of this period showing an increase over the previous year.

Farm products, for the reasons already given, comprise a large proportion of both peacetime and wartime wholesale trade. In 1939, 30 per cent of the 374 million dollar wholesale business of Indianapolis was in agricultural commodities. With the increasing demands for agricultural products for both do-

mestic and foreign use, sales of these products have risen substantially during the defense-war emergency, and now constitute an even larger proportion of total wholesale sales.

BANKING REFLECTS BUSINESS ACTIVITY

Banking in Indianapolis since 1940 reflects the general expansion of commercial and industrial activity. From June 1940 to June 1943, deposits in the four Federal Reserve member banks, which hold 80 per cent of the city's deposits, grew from 261 million dollars to 445 million dollars, an increase of more than 70 per cent. This increase, while somewhat less than for all Seventh District member banks, was a little higher than for all member banks in the country. Almost 45 per cent of this amount occurred during the last year, but indications are that the rate of growth at the present time is diminishing. Expansion of total deposits in Indianapolis over the three year period was entirely in demand deposits. Savings deposits actually showed a slight decline. Generally speaking, this situation was true of the Seventh District and United States although in these two instances savings deposits showed a small gain.

Bank debits, which indicate the volume of business, also made substantial gains, but not to the degree of demand deposits. The annual rate of deposit turnover showed a slight decline between 1940 and 1943. In Indianapolis banks, as in banks all over the country, from June 1940 to June 1943 increased holdings of Federal Government direct obligations caused sharp gains in combined loans and investments.

FURTHER IN-MIGRATION APPEARS NECESSARY

Notwithstanding the in-migration of large numbers of workers to Indianapolis, the labor situation is still tight. Local industrial leaders and representatives of the WMC in June 1943 estimated that 25,000 additional workers would be required by industry in Indianapolis by the end of 1943. This estimate may have been higher than the actual number needed as experience has shown that many employers have overestimated their manpower needs unintentionally or to be sure that they will have an adequate supply of workers on hand at all times. Nevertheless, at present in Indianapolis, labor demand clearly exceeds supply.

In-migration of workers intensifies the already acute housing situation and places a further strain on existing utilities, schools, and hospitals. Moreover, problems raised during the war emergency aggravate postwar adjustments. Therefore, intensive recruiting programs have been tried by local organizations to obtain the necessary workers from within the area. New local workers will have to be enlisted chiefly from the ranks of women who have not previously been in the labor market, and from workers transferred from less essential activities. Unemployment now appears to be at an irreducible

minimum, and hence no assistance can be expected from this source. The initial efforts of the recruiting programs of both the United States Employment Service and the Citizens' Manpower Commission have not yielded the desired results, and it appears that only further in-migration of workers will ease the manpower shortage. The gross vacancy rate in Indianapolis declined from 1.7 per cent to 0.9 per cent between November 1942 and the same month in 1943.

OUTLOOK FOR THE FUTURE

Manpower is likely to be the major problem in the Indianapolis area for the duration of peak war activity. Changes in the type and kind of war materials demanded by the armed forces from time to time will result in cut-backs and cancellations of contracts of certain firms, but few workers probably will become available for new employment through these sources.

The diversity of manufacturing in Indianapolis should be advantageous in minimizing a reconversion slump in business after the war. While many firms will be affected by reconversion problems, others will be able to proceed from war to civilian production without any great amount of delay, provided raw materials are available.

Because of the importance of the automotive bodies, parts, and accessories industry in Indianapolis, the postwar industrial and commercial life of the city will depend to a great extent on what happens in this field. After reconversion the industry should be in a position to catch up with the enormous accumulated demand for parts, both for new cars and replacements, which will exist at the end of the war, and Indianapolis plants will contribute largely to the new supply. Then too, since many of the plants in Indianapolis are now manufacturing aircraft parts, any large-scale development of this industry even though several years in the future, through expansion of airlines, increased popularity of private flying, and enlargement of air freight service, must be recognized in considering the long-run trend of Indianapolis industry. However, as soon as the demand for war aircraft subsides, employment in Indianapolis aircraft plants must drop sharply.

Wholesale and retail trade in Indianapolis immediately after the war, as elsewhere, will depend largely upon the facility with which manufacturing generally is able to resume production for civilian needs and the time required to establish many trade outlets closed or changed substantially during the war.

The decentralization trend in Indianapolis population accentuated during the prewar decade and the war emergency will probably continue after the war unless the desirability of city life can be improved. Most of the postwar plans suggested for Indianapolis include some mention of projects that will accomplish this end, such as expansion and revamping of sanitation and water services, widening of streets, flood control projects, elevation of tracks, and provision of necessary parks, play-grounds, and public buildings.

Agricultural Finance in Postwar Period

Ample Opportunities for Agricultural Lending After the War

In spite of the fact that the hardest months of the war lie ahead, every day of progress in the war brings us a day closer to the postwar period. It is of value, therefore, to begin a close examination of the position of agricultural lenders in that period. Problems and conditions will, in all probability, be substantially different from those faced during recent months and years. Preliminary thinking and preparations may well be made now for lending in the immediate years after the war.

There will be ample opportunities for agricultural lending after the war. Returning servicemen as well as civilians will want to purchase farms. Existing farm plants will be in need of new equipment and machinery. Maintenance and repair expenditures delayed by wartime shortages must be made. Farm families will have unsatisfied demands for consumer goods. Processing facilities for new types and varieties of products will call for financing. Against these financing needs there will be, of course, some offset in the nature of uncertain quantities of accumulated purchasing or spending power on the part of buyers.

POSTWAR FINANCING NEEDS

Farm Purchases. A considerable number of persons will want to return to farming in the postwar period. Some of the demand for farms will come from servicemen who will want to return to the land from which they went into service. Civilians who are at present working in defense plants and other war industries will again want to return to the land. Many of these are even now purchasing farms ranging from small tracts up to well-stocked and well-equipped commercial size farms, with a view to farming when wartime jobs are at an end. The extent of demand for farms and the activity in farm purchases will, of course, depend upon the level of farm prices and of costs prevailing in the immediate postwar period, and the resultant net income obtainable. Granting the assumption that there will be substantial demand for farm products to relieve foreign distress and a reasonably active business and industrial situation domestically, it is probable that the activity in farm transfers will be at a rather high level.

Capital Equipment. With a fairly high level of farm income it may be expected that farmers will also want to purchase huge amounts and many kinds of new capital equipment including such items as trucks, tractors, combines, crop planting and cultivating machinery, dairy and barnyard equipment. In addition to these items, there is known to be a large backlog of demand for fencing, paint, building materials, and related items to make up the gaps in maintenance and repairs which have resulted from wartime shortages.

Technology and New Types of Equipment. In addition to the usual capital requirements, recent developments in ways of farming have created a potential demand on the part of farmers for new types of machines. New and improved hay balers, harvesting machinery, and crop processing equipment will doubtless prove popular. An important wartime development has been the promotion of hemp growing to provide substitutes for foreign fibres no longer available. This industry is believed by many observers to be a permanent adjunct to American agriculture. If hemp remains after the war as an important crop, additional machinery to plant, cut, and gather the crop will be required. Similarly, the rapid development of new crop practices to promote soil conservation and to prevent soil erosion are bringing forth a demand for new types of cultivating and soil-handling machinery.

Consumer Goods. So much comment has already been made about the backlog of consumers' demand for durable and semi-durable goods that little comment is needed here. However, in view of prewar purchases of refrigerators, automobiles, radios, furniture, washing machines, ironers, toasters, deep-freeze lockers, and related items of household equipment, there can be little doubt that purchases of these items by farmers in the postwar period will be on a scale that will call for instalment financing or other forms of consumer finance.

Stored Purchasing Power. Much has been said of the amount of buying that can be consummated out of the savings of consumers during the war. In the case of the farmer, there is ample evidence that a substantial backlog of purchasing power has been accumulated. This force, whatever its ultimate magnitude, will, of course, be something of an offset to the amounts of financing needed to clear the transactions implied by the above survey. Just how much of an offset this will be is not easy to determine, at least in the present state of affairs. Its relative importance depends upon the level of prices which will prevail in the postwar period in relation to the quantities of goods and services made available. Relatively high prices for a limited supply of goods and services could, of course, become an inflationary boom, in which case the backlog of savings might be dissipated and its offset to financing needs thus become a minimum. On the other hand, should prices be at a lower level than implied above, relative to supplies of goods and services available, this backlog of spendable funds might conceivably be an important limiting factor to the magnitude of financing requirements. Many farmers have used their good incomes of recent years to reduce their debts. This means they are in good position to expand their use of credit when and if they wish to do so.

FINANCING FACILITIES

Banks. In preparing for the financing job to be done in the postwar period, a number of problems confront banks. Much thought is being given by bankers and their leaders today to the problem of liquidity after the war. Phenomenal increases in deposits have led bankers to some analytical thinking about the position of their respective banks. As the economy reconverts to peace, it is expected that there will be some shuffling around of deposits as between banks. This does not imply necessarily a change in the national total stock of deposits.

Some of these deposits are the accumulated savings of individuals. More of them are the working balance of business and industry necessarily expanded by the high level of wartime activity. Some of them represent "cold" inventories of merchants. When reconversion and resumption of civilian peacetime business affairs occur, it may be reasonably expected that there will be a considerable amount of deposit reshuffling as between banks, communities, and regions. Any one given bank, therefore, may find its ability to meet postwar financing needs limited by its experience when this reshuffling occurs.

Conceivably the Federal Reserve Banks and correspondent banks may be called upon to engage extensively in Government securities transactions and rediscounting in order that the banking system may perform its functions soundly, effectively, and efficiently. Decisions on policy by those responsible will require courage and wisdom.

Governmental Agencies. At the present time it is not certain just what will be the position of governmental agencies in financing the needs of agriculture in the years that lie ahead. Great pressure is being brought upon Congress and governmental agencies and leaders to modify considerably the place of government in financing agriculture. Many observers feel that the Farm Credit Administration will continue to decline in importance at least for some time. Should there develop any substantial evidence of a shortage of funds to meet what are popularly considered to be the essential needs of agriculture, pressure to expand the financial facilities of governmental agencies to meet these needs may be expected.

Insurance Companies and Other Institutional Lenders. The operations of institutional lenders such as insurance companies are largely confined to the field of mortgage financing. While this type of lender is not greatly different from banks and other types of lenders, a slightly different motivation in making loans should be recognized. An important limiting factor is the fact that such institutional lenders usually have portfolios of a given size to maintain. Great care and thought is given to keeping such a portfolio well balanced. For this reason such lenders cannot be expected to respond in quite the same way to the financing needs of agriculture as other lenders. But insurance companies will be

active lenders in the farm mortgage field. In general, this type of lender tends to operate at a fairly high level of social responsibility with regard to the long-range stability of the economy. "Normal values" are the rule rather than the exception in their appraisal policies. However, this is not to say that even the larger and/or more socially responsible companies will sit back and see what they regard as good sound loans pirated from them by competitors through a gradual bidding up of appraisal values and the amounts loaned.

One large company is currently taking an aggressive step with a new type of mortgage loan contract. This farm mortgage contract provides for ten or fifteen year straight mortgage loans or for loans with amortized payments running from 20 to 40 years. It offers also some attractive features, such as the "income privilege" under which advance payments may be made out of farm income; and the prepayment reserve feature, under which a reserve may be deposited with the company against future payments. Where this is done, the interest paid on the reserve is equal to the contract rate on the mortgage. The novel feature of this plan is that it is designed to share the financing with banks, who may carry the mortgage up to two years, at which time the insurance company takes over the paper. Meanwhile, the participating bank has the option of turning the paper over to the company at any time prior to the two years which it may elect. Banks are paid a commission of 1½ per cent for their services as an agent of the company.

Private Lenders. A very important factor in providing facilities of agricultural finance is the large body of private lenders. Business and professional men as well as retired and operating farmers make up the bulk of this class. At the present time this class of lender accounts for about 35 per cent of the value of farm mortgages in the United States. What part this class of lender will play in the postwar financing of agriculture will depend in part upon the alternate opportunities for investment. In the field of short-term credit, facilities are provided by private lenders in the form of merchant credit and sales financed by the seller. In recent peacetime years, there has been a tendency for this type of financing to increase in relative importance. It will probably be even more important after the war.

LENDERS' RESPONSIBILITIES AND OPPORTUNITIES

Land Values. The disruptions and the long period of suffering which resulted from the over-inflation of land values during and after World War I are again a serious threat to the nation as a consequence of the current developments in values arising out of present inflation. Banks, institutional lenders, governmental lending agencies, and private lenders all have in the present situation a heavy responsibility. Any one of these major groups of lenders can and may make costly mistakes if sound judgment and wise counsel are not followed. It is their responsibility and opportunity as major participants

in farm transfers to use their influence to keep land values on a stable and healthy basis. This responsibility cannot be fully discharged nor this opportunity for leadership fulfilled without careful thought and study of the factors involved on the part of the lenders. Various legislative proposals to deal with the problem by law are in the air. Some of them look constructive, but others appear to be futile, vicious, and dangerous. If lenders will recognize and discharge their responsibility they can do much to obviate the need for legal resorts.

Ability of Borrowers. In the field of short-term credit there is a rich opportunity for lenders to improve their knowledge of farm management and of new techniques in agricultural production. If lenders, particularly country bankers, will take the trouble to improve their knowledge and understanding of farm management and agricultural processes, more of them can become outstanding leaders in their agricultural communities. Realization of these possibilities could have two beneficial effects. In the first place, the guidance and leadership of bankers can yield excellent results in the form of more intelligent farming. There are hundreds of thousands of efficient and able farmers in the country, but there are millions more who never recognize the improvements which they can make in their own management and thus never realize the fruits of better balanced and better organized farm operation. Many of them will listen to the banker if he knows what he is talking about. In the second place, improvement in the skill of bankers on this score will result in a much more effective and sound use of agricultural credit, giving greater stability to the agricultural lending field and at the same time increasing the productivity and efficiency of the nation's farm resources.

This does not imply that lenders are to lift themselves by their own boot straps. Two approaches suggest themselves. First, many lenders, especially country bankers, need to give more thought and time to looking at farm operation from the viewpoint of the farmer and to get the habit of asking themselves what they would do if they were farmers to increase the efficiency and effectiveness of their operations. Second, county, state and national banking associations, and possibly supervisory agencies, might profitably carry on well thought out and well organized training programs to familiarize bankers with proven principles and practices of farm management. The success of these two approaches could result in a marked improvement in the effectiveness of lenders and the management skill of borrowers.

Technological Trends. In the years that lie ahead changes in methods and processes of producing and marketing farm products may be accelerated. Lenders will have an opportunity to speed progress by keeping themselves well informed of new developments along these lines and of facilitating their dissemination throughout their communities. Mention has already been made of the progress in soil con-

servation and the changes in farm management resulting therefrom. Bankers will strengthen their own hands and the position of their customer-borrowers if they are able to exercise leadership in the adoption of practical programs of terracing, contour farming, strip-cropping, and the use of other specialized techniques. The same is true of new agronomic developments and progress in livestock feeding and breeding. It is possible that great progress will be made in the next few years in the adaptation of soy-bean seed varieties to particular regions. Another example of possibilities of technological change is the fact that new processes for processing foods may see great stimulus in the next few years, such, for example, as the quick freezing and dehydration of foods, resulting possibly in a decentralization of processing and marketing. The more lenders know of these possibilities and probabilities of technological change and the greater their sound appraisal and anticipation of these developments, the more effective and useful will they be as economic leaders in their communities.

Rates of Interest. Perhaps no single factor in the agricultural lending field is quite as controversial at the present time as is the rate of interest. Lenders have a responsibility to provide financing at a cost which is mutually constructive to both borrower and lender.

Many bankers approach the matter of interest rates from the standpoint of their costs. Competition of other lenders such as merchants, finance companies, governmental agencies, and private lenders is inducing more of them to take this approach. Interest rates on agricultural paper have tended in the past to be traditional and to change slowly. Keener competition is changing this to some extent.

Credit is the "merchandise" of a bank and some aspects of credit extension are, therefore, merchandising problems. Bankers are beginning to realize more and more that in some respects they have a pricing problem much the same as many merchants have. In this sense internal study within the bank as to costs and work outside the bank in the nature of surveying the market are proving fruitful avenues of exploration to progressive bankers.

Price Trends. One of the really great responsibilities and opportunities of agricultural lenders lies in the skill and insight with which they appraise the market situation and the price probabilities for individual commodities. A good performance on this score will enable them to render effective service to their borrowers and to contribute to their long-range prosperity. This is not to say that every lender must become a prophet. It simply means that within the limits of ordinary careful judgment and with the aid of some analytical reading and thought lenders can make a practical contribution in the form of guiding the borrower through the shoals of over-enthusiastic optimism and overly depressed pessimism.

District Summary

(Continued from inside cover)

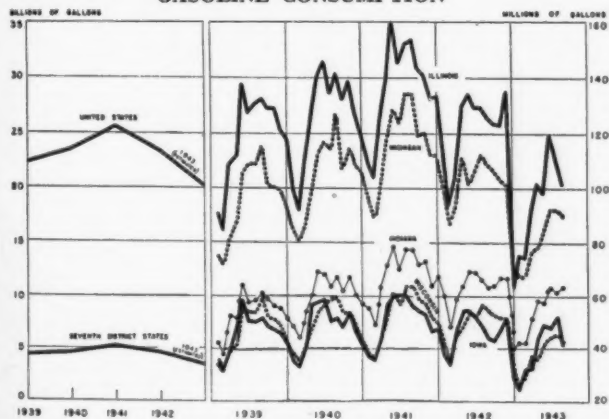
restrictions during November and December probably will not be felt by retailers and consumers until the third and fourth quarters of 1944.

The Office of Civilian Requirements is currently organizing in the Seventh District and throughout the nation one hundred and four district advisory committees to study the local needs for consumer goods and services. The committees are expected to ascertain the need for production of essential civilian goods and to serve as coordinating groups between producers and distributors and government agencies. They will aim to provide for the maintenance of essential civilian services and the equitable distribution of available merchandise.

POSTWAR PLANS RECEIVE ATTENTION

While all major efforts of Seventh District manufacturers and distributors continue to be directed toward speeding the conclusion of the war, increasing attention is being given to plans for future operations during both the so-called conversion and postwar periods. Actually the number of specific planning programs which have reached any appreciable degree of definiteness or finality remains small, chiefly because key industrial executives thus far have been unable to devote much time to postwar plans and still meet their war program requirement. Nevertheless, committees of executives and other specialists have been formed by firms throughout the district. In a few instances, orders for postwar delivery have been placed and received. A good deal of the planning is directed to the rebuilding and expanding of marketing outlets both as a means of ascertaining probable future demand for products and for distributing such goods to industrial and other consumers. Where technically trained personnel can be spared for short periods, new products are being studied and customers' past and current demands analyzed to foresee possible opportunities for improving goods and services.

GASOLINE CONSUMPTION



Figures compiled from the *Statistical Bulletin of the American Petroleum Institute*. Chart shows annual gasoline consumption for the United States and the combined Seventh District states, 1939-1943, with monthly trends for the five states included in whole or in part in the district.

A search for "womanpower" continues to dominate manpower activities. Maximum utilization of the present labor force is the aim of industry and government with labor turnover the principal stumbling block. The WMC is endeavoring to minimize turnover by urging full compliance with regulations making statements of availability prerequisite to transfers between essential jobs. The 48-hour week has now been ordered for more than 35 cities in the Seventh District, particularly in the industrial areas of Michigan, Indiana, and Illinois, and to a lesser extent in Wisconsin and Iowa. The chief value of the application of the longer workweek in all the labor shortage areas has been in reduced demands for new labor and replacements. The releasing of workers has been relatively less important. Employers have utilized workers released under the longer week to meet their own normal turnover demand for new employees.

Current estimates place the number of unemployed persons seeking work at 800,000 in the United States and probably less than 150,000 in the Seventh District. Most of the unemployed are persons who are between jobs. Those temporarily ill account for perhaps one-third of the total. Only about 7 per cent are reported to have been seeking work for more than three months. The present number of unemployed is below the level previously held to be the possible minimum and further reductions are not likely. Discharges from the armed services are now beginning to provide a small but increasingly important source of new employees.

CHICAGO POPULATION DECLINES

The population of Chicago on December 1, 1943 was estimated from Ration Book 4 registrations at 3,352,086 persons, a decrease of 44,728 persons or about 1.3 per cent, from the 1940 census level. Since approximately 300,000 men have entered the armed forces from Chicago, it is evident that the city has received substantial in-migration during the past three years. The further decentralization of the Chicago population into the suburbs for employment in new war plants and for homes is apparent from the report that Cook county, not including Chicago, actually gained more than 4 per cent in population since the 1940 census.

For the entire Chicago Metropolitan area, comprising the counties of Cook, Kane, Du Page, McHenry, and Lake in Illinois, and Lake county in Indiana, Book 4 registrations totalled 4,760,792. Males constituted 45 per cent of the total, and more than 70 per cent were above 18 years of age. The average size of family was found to be 2.8 persons, a reduction from 3.16 persons reported in February 1943 when Ration Book No. 2 was issued, reflecting inductions and the in-migration of single women.

TRANSPORTATION LINES OVERCROWDED

Movement of freight and passengers into, through, and from the Mid-West continues at an exceptionally high rate overtaking all available transportation equipment and personnel. Especially less-than-carload freight and express, principally Christmas par-

cels, have reached record flows during the holiday period, filling transfer and forwarding facilities in Chicago and other district rail centers. Agreement prevails generally that the coming winter and spring will be marked by a "very critical" transportation situation. The ODT is striving to achieve its goal of a 10 per cent increase in over-all freight car use. Railroad freight cars converted to passenger use are now in suburban commuter train service in the Chicago area.

Despite government use of half of their equipment, civil airlines serving the Seventh District and the nation during two years of war have doubled the volume of cargo and airmail carried. Passenger travel has declined about one-fourth during the same period.

During the nearly two years since the shut-down of automobile assembly lines, the ODT estimates that the number of cars in use by private owners has decreased by less than 10 per cent. The pre-war rate of automobile scrappage has been reduced by about half, thus contributing to the comparatively small losses in usable cars since the outbreak of war.

Over-all gasoline consumption in the Seventh District states has dropped more than 25 per cent since the beginning of the war, reflecting sharply the impact of gasoline rationing on civilian automobile driving. The decline in gasoline consumption in the Mid-West has been slightly greater than in the nation as a whole. District refineries continue to report an unusually strong demand for gasoline which they are not able to meet.

The Great Lakes iron ore season closed the second week in December with a total of 84.4 million tons of ore transported. The season's results exceeded the WPB's final quota for the year, but were nearly eight million tons below 1943 shipments. Supplies of iron ore are held to be sufficient to assure full operations in all steel plants using Lake Superior ore until at least May 20, by which time a new navigation season will be open.

LIVESTOCK MARKETS GLUTTED

The run of livestock, particularly hogs, into the principal markets of the Corn Belt became so heavy in recent weeks that distressing gluts developed in several markets. It became necessary to apply embargoes on some of the markets, and in a few markets shipments have been embargoed several times.

Receipts at the 12 principal markets during October, November, and December are shown in the accompanying chart. Receipts of hogs were running one-third greater than during the corresponding period last year, while cattle receipts were 15 per cent above a year ago. This heavy burden of marketings is the result of policies to encourage such expansion. In recent weeks the higher ceiling price on corn resulted in a less favorable feed ratio and a desire on the part of many producers to market their animals rather than feed them any longer. Feed shortages in some areas made it impossible to obtain grain regardless of the ceilings. Another factor has been the support price on hogs up to 270

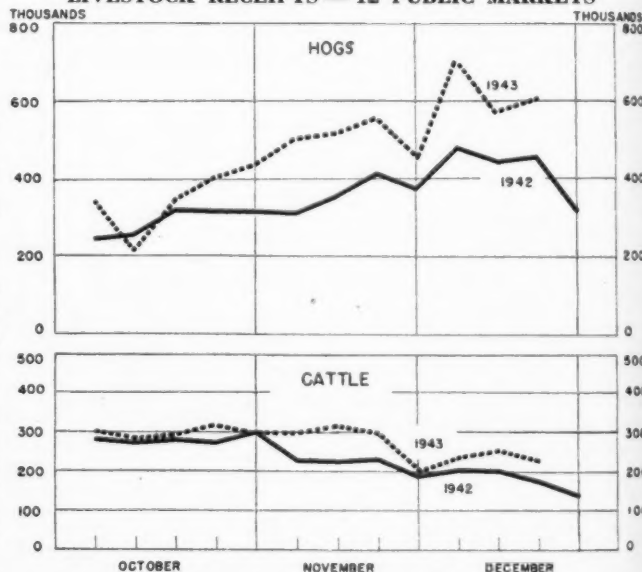
pounds in weight. Producers sent their hogs to market in an attempt to get them on the market at "government weights."

The emergency in markets was created by the fact that there is a shortage of freezer space into which to move the meat. Processing facilities were also heavily taxed, in part due to labor shortages. At several markets thousands of animals piled up and had to be held over. In addition to the embargoes, a number of other devices have been used in an attempt to meet the emergency. The support price was temporarily extended to cover weights up to 300 pounds in order to remove the pressure to get hogs on the market under 270 pounds. To meet the crisis in freezer space, the OPA twice reduced the ration point values for pork and later declared a five-point "bonus" in order to speed up the consumption of pork. It is too early to say what the net effect of these reductions has been, but observers point out that these point changes may have put pressure on beef and especially on butter stocks.

In this connection there has been some agitation for the suspension of pork rationing, at least for taking the points off pork temporarily. If this were done, it would, of course, be necessary to raise the point values of beef and butter in order to avoid pressure on the limited supplies of these commodities. Because of the difficulties encountered in butter rationing there has been considerable pressure in some quarters to separate the meat and butter rationing programs.

Producers experienced some disappointment with the support price because hog lots are being sold on the basis of average weight. If a lot contained mostly animals within the range of government weights, but a few animals outside the range heavy or light enough to bring the average above or below the weights at which prices are supported, the entire lot is subject to discount.

LIVESTOCK RECEIPTS — 12 PUBLIC MARKETS



Source: Food Distribution Administration.

Business Conditions

A Review by the Federal Reserve Bank of Chicago

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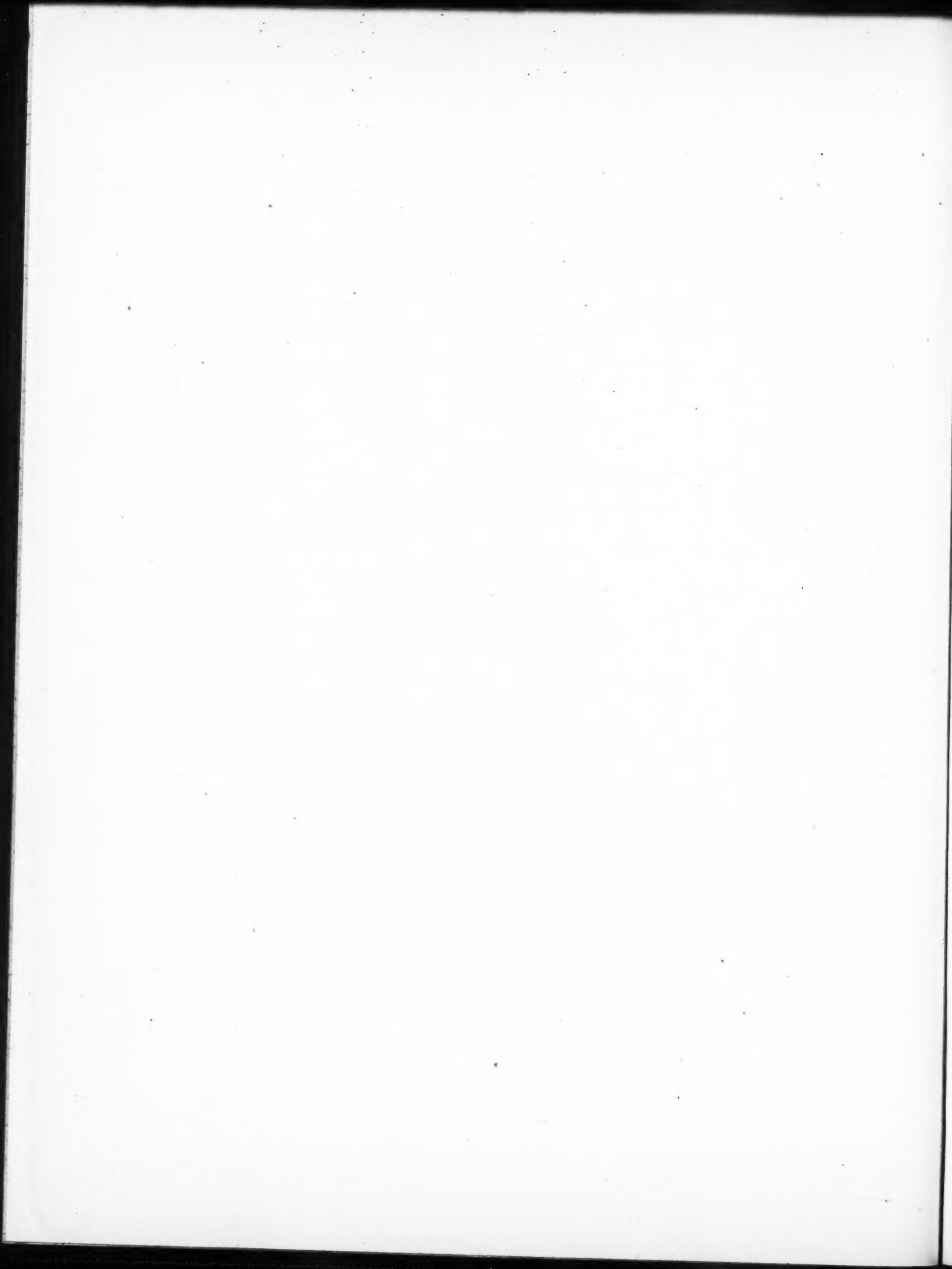
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*Statistics for later months are available upon request from the Research and Statistics Department, Federal Reserve Bank of Chicago, P.O. Box 834, Chicago 90, Illinois.



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SUMMARY OF NATIONAL BUSINESS CONDITIONS

BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Industrial activity was maintained at a high level in November and the early part of December. Value of retail sales during the Christmas buying season has been larger than last year's record sales.

Industrial production—Industrial production in November was at 247 per cent of the 1935-1939 average, the same as in October and 2 points higher than in September according to the Board's seasonally adjusted index. Further increases in munitions production in November were offset in the total index by smaller output of coal and steel.

The reduction in steel output from the high October rate was small and reflected partly a decline in war orders for some types of steel products. Activity in the machinery and transportation equipment industries continued to rise in November. The Board's machinery index, which had been stable from April to August, advanced 5 per cent in the past 3 months as a result of increases in output of electrical equipment and other machinery, which includes aircraft engines.

Total output of nondurable goods in November continued at the level of recent months. Activity in woolen mills showed little change as increased production of civilian fabrics, resulting from the lifting of restrictions on the use of wool, offset reduced output of military fabrics. Production of manufactured food products continued at a high level. Federally inspected meat production in November was one-fourth larger than a year ago. Newsprint consumption in November declined to a level 15 per cent below the same month last year. Output in the rubber products and petroleum refining industries continued to increase.

Coal production was increased sharply in the latter part of November but for the month as a whole bituminous coal output was down 9 per cent from October and anthracite 19 per cent. In the early part of December output of bituminous coal was at the highest rate in many years.

Distribution—Notwithstanding a reduced selection of merchandise, department store sales in November were about 10 per cent greater than the large volume of sales in November 1942, and in the first three weeks of December sales were about the same as a year ago. Value of department store stocks at the end of October was reported to be 9 per cent smaller than a year ago and it is estimated that, contrary to the usual seasonal movement, stocks declined in November.

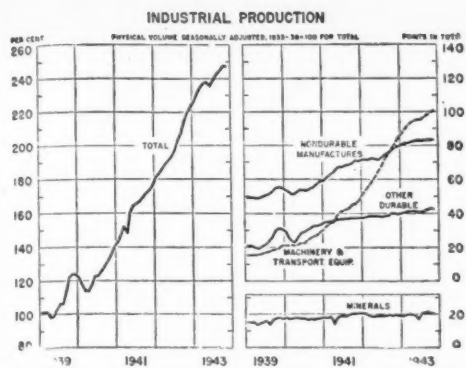
Freight carloadings were maintained in large volume in November and in the first half of December. Loadings of coal during the four weeks ending December 11 were at the highest rate in many years, following a sharp drop in the first half of November. Shipments of grain and livestock were in unusually large volume for this time of year.

Commodity prices—Grain prices continued to advance from mid-November to mid-December and reached levels more than one-fourth higher than a year ago. Wholesale prices of other farm and food products showed little change, while prices of various industrial commodities, including coal, were increased somewhat.

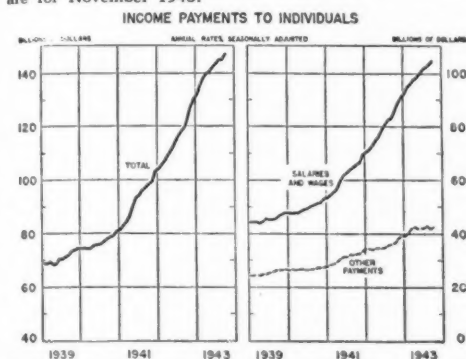
The cost of living, which had increased .4 per cent in October, declined .2 per cent in November, according to the Bureau of Labor Statistics index.

Bank credit—Excess reserves at all member banks fluctuated around one billion dollars in November and December, maintaining an average level slightly below that which prevailed during the previous month. During the five weeks ending December 22, reserve funds were absorbed by a pre-holiday rise in money in circulation of about 800 million dollars, and required reserves continued to increase as Treasury expenditures transferred funds from Government accounts to private deposits. Needed reserves were supplied to member banks through an increase of 1.7 billion dollars in Government security holdings at the Reserve Banks. Additions to Treasury bill holdings accounted for the larger part of the increase, but certificate holdings also rose substantially.

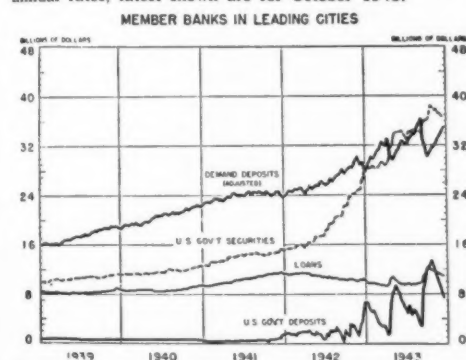
During November and the first half of December, loans and investments at reporting member banks in 101 leading cities declined by around 2½ billion dollars, after increasing by 6¼ billion in September and October. Holdings of all types of Government securities decreased. Bill holdings, mainly because of sales to the Reserve Banks, showed the largest decline. Loans for purchasing or carrying securities continued to decline over the period.



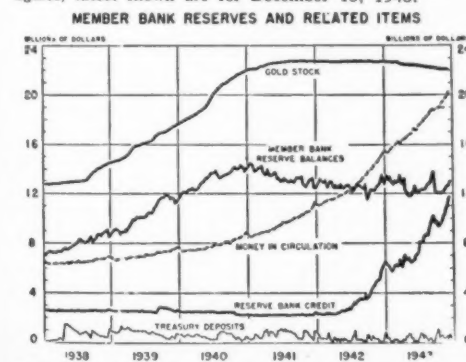
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for November 1943.



Based on Department of Commerce estimates. Wages and salaries include military pay. Monthly figures raised to annual rates, latest shown are for October 1943.



Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for December 15, 1943.



Wednesday figures, latest shown are for December 15, 1943

SEVENTH FEDERAL



RESERVE DISTRICT



